

Complexity, Understandability, Scalability and Proportionality (CUSP)

Drafting Principles and Guidelines

[DRAFT]

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Introduction

This paper outlines a drafting framework for International Standards on Auditing (ISAs), consisting of principles and guidelines to enable the writing of standards that result in the consistent and effective application of ISAs.

The drafting principles and guidelines aim to achieve the following:

- Provide a common understanding how the extant ISAs have been drafted.
- Establish a set of drafting principles and guidelines to promote consistency, clarity and uniformity while drafting ISA.
- Encourage a reflective mindset while drafting with respect of understandability, complexity, scalability and proportionality.
- Enable a more consistent and effective application of the ISAs through a focus on how the ISAs are written and presented.

The drafting principles and guidelines are non-authoritative. It is intended that they be updated from time to time by revising existing content or adding new content as needed.

The drafting principles and guidelines provide direction for Staff of the International Auditing and Assurance Standard Board (IAASB) on how to write ISAs and also include writing tips and examples. They are intended to guide IAASB Staff who would follow the drafting principles and apply the guidance provided while writing new and revising existing standards. They are also intended to facilitate IAASB Staff in their engagement with Task Forces while developing ISAs.

The drafting principles and guidelines may be a useful tool for National Standard Setters (NSS) who adopt ISAs in their jurisdictions and to ensure consistency when drafting national guidance. They are also relevant more broadly for other users of ISAs, including those stakeholders engaged in processes of translation of standards, as they outline how extant ISAs are being drafted and therefore facilitate better understanding.

The drafting principles and guidelines are written in the context of the ISAs. Some principles and guidelines may be useful to the development of other IAASB international standards¹ that are more closely linked to the ISAs, while for others further adaptations would be necessary to accommodate the distinguishing features of those standards.

Drafting Principle(s)

The drafting principles are intended to be considered as a whole while drafting ISAs.

The drafting principles for each element relating to drafting are presented in boxes like this.



¹ These include: International Standards on Quality Management (ISQM), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs).

The drafting principles include statements about what should or should not be done, i.e., what to adhere to when drafting an ISA (the 'do's and don'ts'). Staff are expected to follow these, and need to discuss deviations from these principles with senior staff.

Some of the drafting principles are more overarching, stated at a higher level, aiming to promote a reflective mindset while drafting with respect to understandability, complexity, scalability and proportionality, while others follow more closely the structure of an ISA or relate to general matters of drafting.

Drafting Guidelines

The drafting guidelines include further explanations of the drafting principles and help clarify how to apply the principles. The guidelines are best practice recommendations which are considered helpful to be referred to while drafting ISAs.

Examples and Other Guidance

Examples are provided in gray boxes and tables to help clarify the drafting principles and guidelines and demonstrate the elements relating to drafting of ISAs.

Other guidance that is considered useful to draw the reader's attention to a certain matter is presented in blue boxes when relevant.

1. Basic Structure of ISAs

Individual ISAs are drafted in accordance with a standard structure, that includes uniform sections which provide consistency across the comprehensive body of standards. All of the sections of an ISA collectively form the standard. The authority of each of the sections is set by ISA 200.²

1.1. Sections of Individual ISAs

Drafting Principle(s)

- 1.1.1. All ISAs include sections covering scope, effective date, objective(s) and requirements, together with application and other explanatory material.
- 1.1.2. The scope and effective date are included in the introductory section of the ISAs.



Drafting Guideline

1.1.3. Contents of Individual ISAs:

An ISA may contain additional introductory material within the introductory section, a definitions section and appendices within the application and other explanatory material.

The contents of each standard will vary according to the subject matter and is organized in the following way:

- Table of Contents [reflecting only first- and second-level headings]
- Introduction
 - Scope of this ISA
 - *Other Introductory Material (optional)*
 - Effective Date
- Objective(s)
- *Definitions (optional)*
- Requirements [headings suitable to the subject matter]
- Application and Other Explanatory Material [headings that correspond to the requirements above, as appropriate]
- *Appendices (optional) [numbered if there is more than one]*



ISA 200 is a foundational standard that deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs. Each ISA includes a box indicating that it should be read in conjunction with ISA 200.

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

1.2. Titles and Numbers of ISAs

Drafting Principle(s)

- 1.2.1. Each ISA is identified by a unique number and has a succinct title referring to its subject matter.
- 1.2.2. Numbers assigned to ISAs remain unchanged when they are revised.
- 1.2.3. The title “Revised” is added to the number when referring to standards that have been revised. If the standard is revised again, the year of the latest revision is added (e.g., ISA 610 (Revised 2013)).³



Drafting Guidelines

1.2.4 Titles of ISAs:

Titles of ISAs are short while still being clear as to the content of the ISA.

1.2.5 Revisions of ISAs:

The title “Revised” is only added when there is a revision to the ISA. When conforming and consequential amendments are made as a result of revisions to other ISAs, the title “Revised” is not included in the title of the standard.



A comprehensive list of the number and title of each ISA is included in the Contents section of the printed IAASB Handbook⁵ (Part I).

Published ISAs are thematically grouped and ordered by their subject matter into the following sections:

- ▶ General Principles and Responsibilities (200-series)
- ▶ Risk Assessment and Response to Assessed Risks (300 and 400-series)
- ▶ Audit Evidence (500-series)
- ▶ Using The Work of Others (600-series)
- ▶ Audit Conclusions and Reporting (700-series)
- ▶ Specialized Areas (800-series)

New and revised ISAs that are not yet effective are presented under a separate section.

³ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

⁴ IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

2. Clear, Simple and Concise Language, Formatting and Style

The IAASB aims to set high quality international standards that are understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of practice worldwide.

To achieve its aim, the IAASB drafts principles-based ISAs which are:

- Clear - meaning drafted in an easy to understand and unambiguous way.
- Simple - avoiding unnecessary words and elements and by using plain language.
- Concise - avoiding unnecessary repetition.

2.1. Clear, Simple and Concise Language

Drafting Principle(s)

- 2.1.1. The sole official text of ISAs is that published by IAASB in the English language.
- 2.1.2. ISAs are drafted by use of short sentences and simple language appropriate to its subject matter.



Drafting Guideline

2.1.3. Sentences:

Sentences express just one idea.

Sentences longer than a line and a half may be too lengthy. Consider parsing such sentences or restructuring them into two or more separate sentences. Using lists (e.g., lists that use sub-letters or lists that use bullet points) can also be helpful when restructuring long sentences. Subordinate clauses, like this, should be avoided.

Sentences are best written in the order subject – verb – object. While it is sometimes necessary to depart from this, it usually results in sentences that are harder to read.



Example: Sentence in order: 'subject – verb – object'

"The auditor shall exercise professional judgment in planning and performing an audit of financial statements". (ISA 200, paragraph 16)

2.1.4. Paragraphs:

Paragraphs may combine more than one sentence. Each paragraph refers to only one concept by providing a logical link between the ideas of each sentence.

2.1.5. Using simple language:

Use of simple language supports consistent application and translation of ISAs.

While drafting, apply the following:

- Simplify complex grammatical structures.
- Use the active voice instead of the passive voice.
- Avoid legalistic or archaic terms, nuances, and superfluous adjectives or adverbs.
- Don't use words that suggest an implied obligation (i.e., those which are in between requirements and application material) because the obligation is unclear (i.e., "should",

"ought to", "recommend," "needs". In application material, the present tense creates an implied obligation and should be avoided).

- Don't use words that suggest certainty or absolutes for the auditor (e.g. "ensure", "guarantee", etc.).
- Don't use more words than necessary (e.g., use "The auditor shall obtain evidence for XYZ" instead of "The auditor shall obtain evidence in relation to XYZ").
- When a word or term is known to be problematic to translation (e.g., as indicated by responses to an Exposure Draft), consider alternative wording or define it.



Examples:

Complex grammatical structure

A long sentence may have several relative pronouns (e.g., which, that), subordinate clauses, or multiple use of "and" "or" in a single sentence.

These structures make it difficult to find out which phrases are being compared or modified.

Active versus passive voice

In active voice, the subject of the sentence performs the action. In a sentence written in the passive voice the subject receives the action.

Present tense

In its simple form: "...the auditor does [something]..."

Some wording that is used in the ISAs is so fundamental that a change cannot be made. However, consider if it is possible to use alternative wording or clarify in order to alleviate a translation concern. It is challenging to come up with a complete list of known words which are difficult to translate considering the diversity of languages worldwide, but the following examples can be helpful:

- Be consistent in the use of terms (e.g., when referring to the "auditor" as "he/she/they" or referring to consistently as "an auditor", "risks of material misstatement" and "...free from material misstatement").
- Avoid including two or more words which are known to be difficult to translate in a single sentence (e.g., some languages do not have two distinct words to describe "material" and "significant").
- Passive style sentences may be more difficult to translate in some languages.
- The combination of a singular form and a plural form can be difficult to translate. Subjects and verbs have to agree (i.e., plural subject = plural verb)

2.2. Lengthy, Educational and Repetitive Material

Drafting Principle(s)

- 2.2.1. ISAs should not include material that is lengthy, educational, background in nature, or repetitive of material elsewhere in the ISAs.



Drafting Guideline

2.2.2. Educational and background material:

Avoid including material in ISAs that is lengthy, educational or background in nature. Step back and consider whether such material needs to be included in the standard, or whether it can be positioned better elsewhere (e.g., in non-authoritative guidance).

Questions to help make standards more concise

Do you need a long introduction?

Introductory material should be kept to a minimum and is included only when necessary. This will help highlight the introductory material in those ISAs where it is necessary to elaborate on the scope or context of the particular ISA (see also Drafting Principle(s) 6.3.2).

Is there a need to have application and other explanatory material connected to the introduction section and the definition?

The application and other explanatory material are principally reserved to provide further explanation and guidance for carrying out the requirements of an ISA. Connecting application and other explanatory material from the introduction or definitions may cause confusion about the status of such material. This may be needed in some cases when it is necessary for an understanding of the context in which the standard or definition should be read (see also Drafting Principle(s) 4.1.4).

Are there instances of subsequent cross-references to the same application and other explanatory material?

When there are subsequent cross-references to the same application and other explanatory material, the requirements or the application and other explanatory material may need to be improved. (see also Drafting Guideline 4.1.9).

Is the application and other explanatory material necessary?

Not every requirement needs application and other explanatory material. The application and other explanatory material are most helpful when they provide further explanation and guidance without which the requirement cannot be implemented by a competent auditor (see also Drafting Guideline 10.1.4).

Is the application and other explanatory material relevant mainly for first time implementation?

Material that supports first-time implementation of an ISA in the initial period after a final standard is published forms part of the IAASB implementation support activities. Such material is better positioned in non-authoritative guidance versus in the ISA (see also Drafting Guideline 10.1.4).

Are the appendices necessary?

Consider if the material in the appendices is needed or should be removed. Some material may also be better positioned in non-authoritative guidance versus in the ISA (see also Drafting Guideline 10.1.9).

2.2.3. Repetition:

To the extent that there is no loss of understandability of an ISA, avoid repeating requirements that exist in another ISA or a "related ISA" (e.g., when drafting a subject-matter-specific standard, there is no need to repeat a requirement from the umbrella standard).

Consider either:

- Anchoring the requirement back to the original requirement (e.g., using the phrase "in accordance with ISA [Number]") when repetition is considered necessary in the requirements section for understanding and for context.
- Paraphrase briefly the requirement in the application material while remaining careful not to change the meaning.
- Use a footnote.

While considering whether there is a need to repeat the requirement of another ISA for purpose of understandability, remember that the reader is a competent auditor, whose training, knowledge and experience have assisted in developing the necessary competencies and who has the necessary level of familiarity with all the other ISAs included in the Handbook.

2.3. **Formatting and Style**

Drafting Principle(s)

- 2.3.1. The formatting and style of ISAs, including matters of grammar and punctuation, follows the Chicago Manual of Style / AP Style Manual. Follow the IAASB formatting guide for all publications.
- 2.3.2. The readability of the ISA is supported through use of consistent formatting and style. Formatting techniques such as bullet points, headings and sub-headings should be used to improve the flow of the ISAs.



Drafting Guidelines

2.3.3. Headings:

The use of specific fonts and styles for headings is intended to provide a hierarchy in both the requirements and application and other explanatory material sections of an ISA.

2.3.4. Numbering of paragraphs:

Each paragraph of an ISA is consecutively numbered, as follows:

- Paragraphs from beginning of the introduction to end of the requirements section, by using consecutive numbers 1., 2., 3.,
- Numbering of paragraphs in the application and other explanatory material section follows the following format: A1., A2., A3.,



When conforming and consequential amendments are made as a result of revising another ISA, new paragraphs in the application and other explanatory material are numbered by adding letters to the original paragraph number (e.g., A1a.). Paragraphs are only renumbered when the new standard and the conforming and consequential amendments become effective.

- Numbering of paragraphs from the beginning of each Appendix to their end restarts from 1., followed by consecutive numbers 2., 3.,

2.3.5. Long Lists:

Presenting very long lists (e.g., using multiple layers of bulleted points), becomes difficult to read and understand and may be perceived as a checklist rather than principle-based approach. Instead try to use separate paragraphs.

2.3.6. Lists that use sub-letters:

Sub-lettering (e.g., (a), (b),) is used when expressing a complete list or when the sub-letters may need to be referred to - this is usually the case when dealing with lists in the requirements section.

2.3.7. Lists that use bullet points:

Bullet points lists are used when expressing a list that is not intended to be complete and this is usually the case when dealing with lists in the application and other explanatory material section.

2.3.8. Use of 'and' 'or' and 'including' in a bulleted list:

In a bulleted list 'and' means all items need to be taken into account.

In a bulleted list 'or' means that there could be one or more matters within that list.

The word "including" is used only for lists that are complete.

2.3.9. Footnotes:

- Footnotes do not include substantive content (i.e., content other than that used for purpose of cross-referencing).
- Titles of sections and standards are stated in the footnotes on first mention. Titles are not repeated subsequently.
- Footnotes that are not written in sentence form (i.e., footnotes that refer to other standards) do not end with a period.
- The footnote reference is inserted after any punctuation next to the ISA number (e.g., "ISA 210,⁵...").
- When using a footnote to cross-reference to another ISA use: 'ISA [Number], [Title if first mention], paragraph x [or paragraphs x–y when referring to consecutively numbered paragraphs and paragraphs x–y and z when referring to non-consecutive numbered paragraphs]. Alternatively use 'see ISA [Number], paragraph x.'
- Footnote numbering restarts at 1 in each Appendix (if applicable).



Some ISAs include distinct formatting approaches (e.g., use of tables for requirements or presenting examples in boxes in the application and other explanatory material to separately enhance and identify them as the case in ISA 315 (Revised 2019)), *Identifying and Assessing the Risks of Material Misstatement*

⁵ ISA 210, *Agreeing the Terms of Audit Engagements*

3. Scalability and Proportionality

In the context of drafting, 'scalability' and 'proportionality' are taken into account when determining the qualitative characteristics of an ISA that is useful when assessing the standard's responsiveness to the public interest.

Drafting Principle(s)

3.1.1. Individual ISAs reflect the public interest appropriately when they are drafted in a manner that is:

- Proportional to the public interest issue being addressed, considering the relative impact they have on different stakeholders.
- Scalable by addressing the needs of different stakeholders and extending to both complex and less-complex circumstances.



Drafting Guideline

3.1.2. 'Proportionality and scalability test':

A 'proportionality and scalability test' helps to determine if the requirements of an ISA are drafted in a manner that is responsive to the public interest.

The following considerations are relevant for proportionality:

- Will the absence of a requirement adversely affect the quality or consistency of audits in an international context?
- Can the ISA and its requirements be consistently applied and be globally operable across entities of all sizes and regions, considering the different conditions prevalent in various jurisdictions?

The following considerations are relevant for scalability:

- Does the requirement allow the application of judgment and thoughtful consideration in light of the varying circumstances of the audit?
- Do the benefits of having the requirement outweigh its costs?

3.1.3. The standard setting toolbox for proportionality and scalability:

Standard setting tools which help deal with 'proportionality' and 'scalability' of ISAs include:

- Scope statements that identify if the ISA (and therefore all of its requirements) is relevant to the circumstances of certain audits or not. Sometimes it is necessary to expand these statements to clarify when the standard does not apply, what it does not deal with, or when there is a specific limitation to the applicability of the ISA.
- Inclusion of a statement on 'Scalability' in the introductory material of the standard is helpful to emphasize how the ISA is intended to be scalable for audits of all entities, regardless of size or complexity.
- Identifying any conditionality for a requirement at the beginning of the sentence to help make clear if there are limits to their relevance and applicability.
- Limiting the application of a requirement when there is a need to differentiate that the requirement is only applicable for certain types of entities (e.g., for listed entities).

- Use of the application and other explanatory material to further explain specific considerations relevant for entities that operate in a specific sector (e.g., public sector entities).
- Use of the application and other explanatory material to help the auditor by illustrating how a particular requirement can be scaled up or down. This is achieved by use of scalability considerations specific to audits of smaller entities/less complex entities (LCEs). These considerations can explain or provide examples of how the requirements apply to all entities regardless of whether their nature and circumstances are less complex or more complex.
- Describe relevant factors in the application material that can be used to scale the requirement to the circumstances.



Examples: Scalability and Proportionality

Scope statements

ISA 610 (Revised 2013), paragraph 2

“This ISA does not apply if the entity does not have an internal audit function.”

Scalability

ISA 315 (Revised 2019), paragraph 9

“...This ISA is intended for audits of all entities, regardless of size or complexity and the application material therefore incorporates specific considerations specific to both less and more complex entities, where appropriate. While the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex.”

Conditionality

ISA 230, *Documentation*, paragraph 11

“If the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.”

Limiting the application of a requirement

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 50(l)

“...For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.”

Considerations specific to public sector entities

ISA 315 (Revised 2019), paragraph A93

“Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority...”



Examples: Scalability and Proportionality (Cont.)

Considerations specific to smaller entities

ISA 230, *Audit Documentation*, paragraph A16

“The audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision)...”

Scalability considerations

ISA 315 (Revised 2019), paragraph A92

“The way in which the entity’s system of internal control is designed, implemented and maintained varies with an entity’s size and complexity. For example, less complex entities may use less structured or simpler controls (i.e., policies and procedures) to achieve their objectives.”

4. Cross-Referencing

Cross-references in ISAs are used as follows:

- Cross-referencing paragraphs in each ISA.
- Cross-referencing to other ISAs or paragraphs of other ISAs.
- References to international standards other than ISAs.

Cross-referencing can improve understandability (by connecting concepts that might otherwise be missed by the reader) but it can also be distracting (by forcing the reader to jump around a document) and impede readability (by excessive repetition).

4.1. Cross-References to Paragraphs Within Each ISA

Drafting Principle(s)

- 4.1.1. Footnotes should not be used when cross-referencing to paragraphs in the same ISA.
- 4.1.2. Most application and other explanatory material is referenced back to related material in the requirements sections.



- 4.1.3. The objective and effective date paragraphs should not have application and other explanatory material and are not cross-referenced.⁶
- 4.1.4. Do not cross-reference from the introduction or definitions section to the application and other explanatory material unless necessary for an understanding of the context in which the standard or definition is to be read.
- 4.1.5. References to an appendix should be made from the application and other explanatory material, not the requirements. The heading in the appendix includes a cross-reference back to the application and other explanatory material.

Drafting Guideline

4.1.6. Use of cross-references within each ISAs:

Cross-referencing to paragraphs within each ISA is used for:

- Connecting the application and other explanatory material to the other sections of an ISA.
- Referring to another paragraph in the same ISA.

4.1.7. Cross-references within ISAs are precise:

That is, requirements are cross-referenced to specific paragraphs in the application and other explanatory material rather than to general sections or groups of paragraphs.

4.1.8. Position of cross-references:

In the requirements, cross-references appear at the end of the paragraph, or at the end of a bullet point.

That is, if a requirement has more than one bullet point and there is application and other explanatory material related to each bullet point, the reference appears after each bullet point. When the application material relates to all bullet points of a requirement, then the cross-reference is stated after the colon and before the bulleted requirements.

In the application and other explanatory material the cross-references appear in the section heading or sub-heading.

4.1.9. Consecutive cross-references:

Application material is organized so that the cross-references from the requirements to the application and other explanatory material are consecutive.

That is, the first section of the application and other explanatory material relates to the first time there is a cross-reference in the requirements. Subsequent cross-references to this same application and other explanatory material should be avoided.

4.1.10. Internal references:

When referring to another paragraph in the same standard, the reference is 'paragraph x', not 'paragraph x of this standard' or 'paragraph x above/below.'

⁶ In extremely limited circumstances, some foundational standards (e.g. ISA 200 and ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*) have essential material following the objective. See for example ISA 200, paragraph 12.



Example: Cross-References in each ISA

ISA 230, *Audit Documentation*, paragraph 7 and A1

7. The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)

Timely Preparation of Audit Documentation (Ref: Para. 7)

A1. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. [...]

4.2. Cross-References to Other ISAs or Paragraphs of Other ISAs

Drafting Principle(s)

- 4.2.1. References to other ISAs or paragraphs of other ISAs should be made to the extent necessary in order to simplify the text of the standard and to convey necessary information to the reader about a related requirement or ISA.
- 4.2.2. References should provide sufficient content to explain the provision of the other ISAs but should not excessively repeat the content of the other provision.



Drafting Guideline

4.2.3. Format of references:

References to requirements in other ISAs can be:

- By use of a footnote.
- By reference to the other ISA (e.g., '...in accordance with ISA [Number]'; '...required by ISA [number]....')
- Included in application and other explanatory material, by using for example the following phrases: 'the auditor is required to [do something] in accordance with ISA [number]...', 'ISA [number] requires the auditor to [do something]', 'ISA [number] provides guidance [for something] ...', or in a similar manner. As long as the text is congruent with the quoted requirement, the present tense may be used.

4.2.4. Specificity of references:

References can be made to a whole standard, a group of requirements, or to a specific paragraph in another standard. The decision which is most helpful to the reader is dependent on the circumstances.

When referring to a requirement in another standard, include the appropriate paragraph in that standard (by way of footnote or by reference to the paragraph of that ISA).

4.2.5. Circular and serial references:

References should refer back to the paragraph where the initial provision is first explained.

Circular references (i.e., references to a paragraph which itself refers back to the initial provision) and serial references (i.e., references to a provision which itself refers to another provision) should be avoided.



Example: Cross-references to other ISAs or paragraphs of other ISAs

ISA 300, *Planning an Audit of Financial Statements*, paragraph 12

The auditor shall include in the audit documentation: ^x[...]

^x ISA 230, *Audit Documentation*, paragraphs 8-11, and A6

ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 29

In accordance with ISA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. ^x (Ref: Para. A34)

^x ISA 330, paragraph 5

ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 25

When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of ISA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.

ISA 530, *Audit Sampling*, paragraph A20

[...] ISA 330 provides guidance when deviations from controls upon which the auditor intends to rely are detected. ^x

^x ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 17

4.3. References to International Standards Other than the ISAs

Drafting Principle(s)

4.3.1. ISAs are framework neutral and do not make references to specific financial reporting, ethical, quality management or other frameworks except by example and to the extent necessary to clarify IAASB's intent.



Drafting Guideline

4.3.2. ISQM 1:⁷

References to ISQM 1 initially use the following phrase "ISQM 1 or national requirements that are at least as demanding." After this initial reference to other national requirements, the text can

⁷ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

refer to ISQM 1 without further reference to national requirements.

4.3.3. IESBA Code:⁸

References to the IESBA Code are:

- Included in the definitions (e.g., the definition of “relevant ethical requirements” by reference to requirements which ordinarily include the provisions established by the IESBA Code, together with national requirements that are more restrictive).
- The application and other explanatory material to highlight certain provisions of the IESBA Code.



ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* defines the term “relevant ethical requirements” and establishes the auditor’s responsibility to comply with those requirements, including the IESBA Code. As such, other ISAs usually refer only to “relevant ethical requirements” unless a specific provision of the IESBA Code needs to be highlighted.

References to the IESBA Code in the application and other explanatory material should take into account that the IESBA Code is intended to be applied through an integrated approach, rather than focusing only on particular sections or requirements.

References to the IESBA Code follow the format “IESBA Code” or alternatively “IESBA Code, paragraph x”. On first mention, the full name is used as follows: “International Ethics Standards Board of Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).”

4.3.4. Financial reporting frameworks:

Because the ISAs are framework neutral, references to a commonly used framework such as IFRS⁹ and IPSAS¹⁰ are only used to help readers understand the IAASB’s intent.

References to financial reporting frameworks follow the format “IFRS [number], [Title]” or alternatively “IFRS [number], [Title], paragraph x.”



Specific references to other international standards in ISA create a maintenance burden as they will need to be updated when there are changes to those standards.

⁸ International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

⁹ International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB).

¹⁰ International Public Sector Accounting Standards promulgated by the International Public Sector Accounting Standards Board (IPSASB).



Example: References to International standards other than ISAs

ISA 230, paragraph A23*

ISQM 1 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance for the retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards. ^x [...]

^x ISQM 1, paragraph 31(f)

* Example sourced from the Conforming Amendments to ISAs and Related Material Arising from the Quality Management Projects.

ISA 220 (Revised), paragraph A44

Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the IESBA Code explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement is so low that it might be difficult to perform the engagement in accordance with professional standards. ^x

^x IESBA Code, paragraph 330.3 A2

ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, paragraph A47

For example, with respect to fair value estimates, IFRS 13^x indicates that, if multiple valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. [...]

^x IFRS 13, Fair Value Measurement, paragraph 63

5. Terminology Used In and Across the ISAs

The constructs and terms used across the IAASB's literature aim to aid readers by using the same terms to mean the same action/circumstance. Using the same terms also helps to avoid proliferation of terminology that complicates the ISAs.

Drafting Principle(s)

- 5.1.1. Do not develop new terms or terminology for existing concepts. The terminology used in new or revised ISAs must be as consistent as possible with already established terms used in existing standards.



Drafting Guideline

5.1.2. Consistent terminology:

For consistency, the following is recommended:

- While we normally use Oxford commas, we refer to 'nature,



Example: Oxford (or serial) commas

Oxford or serial commas are commas used after the second to last item in a list of three or more items, before 'and' or 'or.'

timing and extent' rather than 'nature, timing, and extent.'

- Use 'for example' or 'that is' when used outside of brackets, and 'e.g.', or 'i.e.', when used within brackets.
- Avoid using the word 'review' in relation to documentary evidence as the term has a broader meaning in relation to review engagements. Use 'inspect' if this would be appropriate. The use of 'review' is permitted in the context of direction, supervision, and review.
- Use 'may' rather than 'might.'
- Use 'obtain an understanding of...' rather than 'understand.'
- Use 'modified opinion' rather than modified report.

5.1.3. Management's responsibilities:

The formulation 'management is responsible' or 'those charged with governance are responsible' should be avoided. The preferred formulation is to state the authority that '[source] requires [management or those charged with governance] to ...'. For example:

"The application of the applicable financial reporting framework often requires management to consider changes in the environment or circumstances that affect the entity."

5.1.4. Withdrawal from the engagement:

The term 'withdraw' should be used rather than the term 'resign.' ISA 200 clarifies that, for purposes of the ISAs, the term 'withdraw' has the same meaning as 'resign.'

In connection with withdrawal from the engagement, use 'where possible under applicable law and regulation.' This also avoids suggesting that withdrawal must be explicitly permitted.

In connection with other circumstances, use the phrase 'unless prohibited' unless inappropriate in the circumstances. ISA 200 explains that 'depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit.'

5.1.5. Law or regulation:

Refer to 'law or regulation' rather than to legislation (except for public sector perspectives).

Unless context suggests otherwise, reference is made to "law or regulation" (which is more generic than the plural form, and more inclusive than "law and regulation").

5.1.6. Policies or procedures:

Use "policies or procedures" instead of "policies and procedures."

5.1.7. Use of 'and' and 'or':

In a sentence:

- 'and' means A and B.
- 'or' means and/or (could be either).

5.1.8. Terms that describe likelihoods of occurrence:

Various terms are used in ISAs to describe likelihood of occurrence. Broadly, these terms can be classified into the following general categories:

- Those that convey the probability of an event occurring (e.g., likely, usually, rare, unlikely, etc.)
- Those that are associated with risk (e.g., audit risk, risk(s) of material misstatement, the inherent risk spectrum, etc.)
- Other terms associated with likelihood.

Differences in languages and culture can lead to differences in interpreting the various terms used. For example, some terms of likelihood could be interpreted differently in different contexts or there may be translation difficulties around certain terms.

Appendix 1 provides further information and examples for each category of terms to describe the likelihood of occurrence in ISA. These examples are useful to drive consistent use of these terms and help mitigate potential difficulties in understanding.

6. Introduction Section of ISAs

The introduction section includes the scope and effective date of an ISA. The introduction section may also include other introductory material necessary to clarify the context of the standard.

6.1. Scope of an ISA

Drafting Principle(s)

- 6.1.1. The scope of a specific ISA is a statement that explains to what the standard applies.
- 6.1.2. The scope of each ISA is always made clear in the ISA.



Drafting Guideline

6.1.3. Content of scope paragraphs:

The scope paragraphs may be expanded to clarify:

- When the standard does not apply or what it does not deal with. Such clarification may be necessary when there are other standards with similar scopes in order to clarify that their requirements are not in conflict and to maintain coherence within the overall body of ISAs.
- When there is any specific limitation of the applicability of a specific ISA.

6.1.4. Drafting scope paragraphs:

When drafting scope paragraphs, the following should be considered:

- References to the auditor's responsibilities follow the construct 'the auditor's responsibilities relating to...' rather than 'regarding,' 'about,' and etc.
- Use 'This ISA is written in the context of...' rather than 'drafted in terms of...'



Examples: Scope paragraphs

Standards with similar scopes:

For example, while ISA 260 (Revised), *Communication with Those Charged with Governance*, provides an overarching framework for the auditor's communication with those charged with governance, ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, establishes specific requirements regarding the communication of significant deficiencies in internal control identified by the auditor to those charged with governance.

Clarification what the ISA does not deal with:

For example, the scope statement of ISA 620, *Using the Work of an Auditor's Expert*, explains the specific situations that are not covered by this ISA as they are dealt with by requirements of other standards.

Limitations on the applicability of a specific ISA:

For example, ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, indicates that the standard applies to listed entities or those required by law and regulation, with voluntary application allowed for entities other than listed entities.

6.2. Effective Date of an ISA

Drafting Principle(s)

- 6.2.1. The effective date is always stated under the title and within the standard.
- 6.2.2. Unless otherwise stated in the ISA, the auditor is permitted to apply an ISA before the effective date specified therein.



Drafting Guideline

6.2.3. Effective Date Paragraphs:

The effective date reads as follows: 'This ISA is effective for audits of financial statements [or group financial statements] for periods beginning on or after [month day, year].' Alternately, the effective date may be for periods ending on or after [month day, year], (commonly used in the 700-series).

For standards of the 800-series, the effective date reads as follows: 'This ISA is effective for [specify type of statement, report, etc.] for periods ending on or after [month day, year].'

6.3. Introductory Material

Drafting Principle(s)

- 6.3.1. Material in an ISA's introduction section that provides contextual information relevant to a proper understanding of the ISA, but does not directly relate to the scope of the ISA, is presented with a separate heading in the introduction of the ISA.



6.3.2. Introductory material should be kept to a minimum.

Drafting Guideline

6.3.3. Content of introductory material:

Introductory material may be needed to explain:

- The purpose of the ISA, including how the ISA relates to other ISAs.
- The respective responsibilities of the auditor and others in relation to the subject matter of the ISA.
- The context in which the ISA is set.

6.3.4. Minimal introductory material:

Avoid lengthy introductory sections. Unless absolutely necessary, the intent is not to discuss the topic of the ISA or the context of the ISA. This approach helps minimize any confusion over the status of such material and helps to highlight those circumstances where emphasis is needed.

If there is something in the standard that expands on the topic addressed by the standard/context of the standard, consider the following:

- Can it be subsumed in application material relating to a requirement?
- Consider whether the non-authoritative material is a better location for material of such nature.

6.3.5. Scalability:

Some ISAs include a paragraph on Scalability in the introductory material of the standard. Such a paragraph is intended to emphasize that the ISA is intended for audits of all entities, regardless of size or complexity.¹¹

7. Objective(s) of the Auditor in ISAs

The objectives stated in individual ISAs provide linkage between the requirements and the overall objectives of the auditor. The auditor uses the objectives in ISAs while planning and performing the audit to determine whether any audit procedures in addition to those required by the ISAs are necessary and to evaluate whether sufficient appropriate audit evidence has been obtained to achieve the overall objectives of the auditor.

Drafting Principle(s)

- 7.1.1. Each ISA has one or more objectives to be achieved by the auditor in relation to its subject matter.
- 7.1.2. The proper application of the requirements in the ISA are expected to provide a sufficient basis for the auditor's achievement of the objectives.



¹¹ See ISA 315 (Revised 2019), paragraph 9, and ISA 220 (Revised), paragraph 8.

Drafting Guideline

7.1.3. General form of objective(s):

The objective is a statement of the end result of what the auditor aims to achieve by applying the standard.

The objectives generally take the following form: "The objective(s) of the auditor is to [achieve outcome]."

Objectives that are procedural in form may diminish the benefits of specifying objectives and blur the distinction between them and the requirements. On the other hand, setting objectives at too high a level may make it difficult to determine if the objective was fulfilled.



The objectives need to be specific enough to assist the auditor in:

- ▶ Determining what is to be accomplished.
- ▶ Understanding how the objectives and requirements relate.
- ▶ Deciding what more, if anything, needs to be done.
- ▶ Evaluating whether they have been met.



Example: Objective(s)

Some objectives require the auditor "to determine [something]" and then to take action based on that determination. For example: ISA 620, *Using the Work of an Auditor's Expert*, paragraph 5.

The objectives of the auditor are:

(a) To determine whether to use the work of an auditor's expert; [...]

Some objectives direct the auditor to obtain sufficient appropriate audit evidence about whether a matter is accounted for and presented in accordance with the applicable financial reporting framework. In such cases, the adverb "appropriately" is preferred, unless another term is more relevant to commonly used financial reporting frameworks. For example: ISA 560, *Subsequent Events*, paragraph 4.

The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and [...]

7.1.4. Drafting objective(s):

Objectives do not repeat the requirements of the standard (the requirements are designed to enable the practitioner to achieve the objective specified in the standard). Rather, objectives are drafted to indicate the intended outcomes of the auditor's efforts in applying the ISA, together with sufficient references to the requirements to provide necessary context. Objectives and requirements should be set so that compliance with the requirements will, in most cases, result in achieving the objective.

While drafting the objectives, the following is applied:

- Use "to obtain sufficient appropriate audit evidence regarding [something]" rather than "to obtain sufficient appropriate audit evidence about whether [something]".
- Use "conclude, based on audit evidence obtained" in objectives rather than "conclude" on its

own.¹²

- Use “[something] or suspected [something]” rather than “identified or suspected [something]”.

When drafting the objective avoid including anything aspirational in the objective (e.g., “to achieve quality...”).

8. Definitions in the ISAs

Definitions are provided to explain terms used in ISAs and to assist in the common and consistent interpretation and translation of the ISAs. The intent for use of the definition section in ISAs is to:

- *Define terms authoritatively.*
- *Highlight new key terms being introduced by an ISA, which are helpful to readers and translators.*
- *Define certain terms without disturbing the flow of the requirements.*

The IAASB Glossary of Terms incorporates all definitions included in the International Standards issued by the IAASB¹³ and certain additional commonly used terms. The IAASB Glossary of Terms is not an authoritative document. It is updated by Staff in connection with the finalization of the IAASB Handbook.

8.1. Definition Section of ISAs

Drafting Principle(s)

- 8.1.1. An ISA may include, in a separate section under the heading ‘Definitions’ a description of the meanings attributed to certain terms for purposes of the ISA.
- 8.1.2. Definitions already defined in other ISAs are not repeated.
- 8.1.3. Only terms that appear in the requirements section of ISAs are defined.
- 8.1.4. Definitions do not include examples.
- 8.1.5. Do not use defined terms to mean something different.



Drafting Guideline

8.1.6. Considering whether to include something in the definitions section:

Consider whether the term is fundamental to understanding the requirements of the ISA (i.e., is it important to define the term?), and whether the particular ISA is the logical one for the definition.

If it relates to a term used only in the application and other explanatory material, we describe it there rather than in the definitions section or cross-reference back to the ISA where the term is used.

¹² See, for example, ISA 550, Related Parties, paragraph 9(a)(ii).

¹³ These include: International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs) and International Standards on Quality Management (ISQM).

8.1.7. Definition versus description:

When thinking about whether to include something in the definitions section, consider whether it is a definition or a description. Something may be a description, rather than a definition, when it states that the [term] includes [this or that]. If the definition reads as an explanation, it is likely a description that is included in application and other explanatory material.

8.1.8. Limited application and explanatory material for definitions:

Most often, the definitions do not have application and other explanatory material. Limited application material may be considered in some cases when it is necessary for an understanding of how the definition is to be read.

When a term has been previously explained in another ISA or in the Glossary of Terms, but has a specific meaning for the context of the ISA, then this is explained in the application and other explanatory material.



Example: Terms with a specific meaning for the context of an ISA

The term 'Significance' is described in the Glossary of Terms.

The application and other explanatory material of ISA 315 (Revised 2019), paragraph A10 and ISA 701, paragraph A1 provide further explanation of the term 'Significance' for the context of those standards.

8.2. Glossary of Terms

Drafting Principle(s)

8.2.1. All definitions included in new or revised pronouncements that are coming into effect are included in the IAASB Glossary of Terms.



Drafting Guideline

8.2.2. Interpretations of definitions for the context of a certain IAASB International Standard:

When definitions included in the Glossary of Terms have specific interpretation for the context of a certain IAASB International Standard, then this is specifically differentiated.

For example, Relevant ethical requirements (in the context of the ISAs) or Relevant ethical requirements (in the context of ISRS 4400 (Revised)).¹⁴

9. Requirements of an ISA

The requirements section includes actions that the auditor undertakes in achieving the objective stated in the ISAs.

Drafting Principle(s)

9.1.1. All paragraphs that impose obligations on the auditor are included in the requirements section of an ISA.

9.1.2. The requirements of ISAs are expressed by using the word "shall."



¹⁴ ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

- 9.1.3. Requirements focus on what the auditor is required to do. Explanations of why the requirement exists or how it could be executed are, in most cases, included in the application and other explanatory material.
- 9.1.4. The requirements should provide a sufficient basis for the auditor's achievement of the objectives.
- 9.1.5. The ISAs are intended to be principles-based. This means that the requirements are primarily written in terms of principles or outcomes rather than procedures or steps that allow the auditor to apply professional judgement in planning and performing the audit.
- 9.1.6. While essential application material can be included in the requirements, it is confusing to readers and should be avoided.

Drafting Guideline

9.1.7. Contents of requirements:

The requirements establish “what” the auditor is required to achieve. Requirements do not explain “why” the requirement is needed or “how” to apply the requirement (this is set out in the application and other explanatory material).

Requirements are drafted with the following attributes in mind:

- The requirement is necessary to achieve the objective stated in the ISA.
- The requirements are responsive to the public interest.
- They are applicable in virtually all audits to which the ISA is relevant (this prevents the need for the auditor to depart from a relevant requirement).
- Requirements are sector neutral.
- They convey adequately that they apply to all entities and, if not, are clearly conditional.
- Any conditionality attaching to a requirement is made clear to identify any limits to their relevance and applicability.
- They extend to both complex and less complex circumstances.
- The required action is clear, understandable, can be documented and is stated as simply and concisely as practical.



The auditor exercises professional judgement in planning and performing an audit. ISA 200, paragraph A26 explains that the distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

9.1.8. Conditionality:

If a requirement is conditional on [something], then:

- The condition is stated at the beginning of the requirement.
- The conditionality is made clear by making the condition explicit, rather than implicit.

The following general approach is recommended for purpose of consistency:

- Use "if" when it is unknown whether the condition will exist or not ("If the entity has an internal audit function, the auditor shall...").
- Use "when" when the condition will definitely happen at some point (e.g., "When the auditor performs risk assessment procedures, the auditor shall...").
- Sparingly, use "where" to describe "in the situation or circumstances in which".

9.1.9. Sequencing of requirements:

The requirements of an ISA follow a logical order. In most cases, the requirements should begin with overall obligations and move to more specific obligations, in the order in which an auditor typically approaches the matter at hand (recognizing that undertaking an audit may be an iterative process).

9.1.10. Essential material:

The requirements can contain essential material and these sentences do not include "shall." However, because the nature of essential material within the requirements section can be misunderstood, inclusion of essential material is limited to circumstances when it is absolutely necessary to include such material to make the requirements understandable.

9.1.11. Multiple requirements in one paragraph:

Avoid including multiple requirements in one paragraph. An indication that separate



ISA 200 explains that the conditionality of a requirement will either be explicit or implicit:

- ▶ The requirement to modify the auditor's opinion if there is a limitation of scope is an explicit conditional requirement.
- ▶ The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance, which depends on the existence of such identified significant deficiencies, is an implicit conditional requirement.

In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the auditor may be required to withdraw from the audit engagement, when withdrawal is possible under applicable law or regulation, or the auditor may be required to do something, unless prohibited by law or regulation. Depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit.



Example: Essential Material

ISA 200, paragraph 24

If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA 230.

requirements may be appropriate can be multiple uses of "shall" within one paragraph, unless needed to give effect to the requirement (for example, if the requirement begins with a conditional sentence. Instead, if a requirement includes a list of requirements, consider whether each item in the list is its own requirement.

9.1.12. Form of a requirement:

Requirement paragraphs always use the term "shall." They never include other forms such as "should", "must" or "will".

When drafting the requirement, the following format is recommended: "The auditor shall...."

9.1.13. Negative form of a requirement:

A requirement may take the negative form (i.e., the practitioner shall not [do something]). Negative requirements are not used very often in ISAs.



Example: Negative Form of Requirement

ISA 705 (Revised), paragraph 29

Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with ISA 701 or an Other Information section in accordance with ISA 720 (Revised).

9.1.14. Limits to the application of a requirement:

When drafting requirements, consider when it is appropriate to limit the application of a requirement, or to differentiate the requirement, for engagements performed

on information from different types of entities. For example, ISA 720 (Revised)¹⁵ differentiates requirements that are applicable for listed entities.

9.1.15. Work effort verbs:

The choice of verbs in a requirement signals the work effort that the IAASB intends auditors to apply. The choice of verb is important as it affects the nature and extent of work that the auditor needs to undertake to comply with the requirement.

Minor variations in the choice of verbs can make a requirement hard to read or translate because the verbs are synonyms or their dictionary definitions are too close to each other for there to be a real difference in work effort. To aid the IAASB and staff in choosing appropriate verbs, Appendix 2 lists many of the verbs in common use, provides a brief summary of how they are used, and lists what possible work effort and documentation implications may exist. As with the rest of this document, Appendix 2 is not authoritative. As far as possible, staff should avoid creating new verbs to signal a work effort similar to the verbs in Appendix 2.

10. Application and Other Explanatory Material of ISAs

The guidance included in the application and other explanatory material supports the proper application of ISAs. Although the auditor has a responsibility to consider the entire text of the ISAs in carrying out an audit, the application and other explanatory material is not intended to impose a requirement for the auditor to perform the suggested procedures or actions.

¹⁵ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraphs 21-22



Drafting Principle(s)

10.1.1. The content of the application and other explanatory material of ISAs includes:

- Further explanations of the requirements, including why they are necessary ("the why").
- Guidance for carrying out the requirements, including examples to illustrate how to apply the requirement in certain context ("the how").

10.1.2. Application and other explanatory material is distinguished and separated from the requirements to make clear that such guidance does not in itself impose a requirement.

10.1.3. The present tense is not used in the application and other explanatory material (the present tense is allowable only for statement of facts or repetition of the requirements).

Drafting Guideline

10.1.4. Not all requirements need application and other explanatory material:

In some cases, a requirement may need some guidance to provide context (even if only a few sentences).

While considering if a requirement needs application and other explanatory material the following may be useful:

- Drafting lengthy, educational, or contextual material in the application and other explanatory material section of ISAs should be avoided.
- Guidance which is better suited to first-time implementation of an ISA forms part of the non-authoritative IAASB material. Such guidance is important to assist with the effective implementation of new and revised standards in the initial period after a final standard is published.
- Guidance which addresses a specific or targeted issue or which is related to a specific industry or other particular context may be better positioned as non-authoritative IAASB material.
- The application and other explanatory material are written with the presumption that the reader is a competent auditor, who has undergone an initial and continuing education program in accordance with International Education Standards and has attained and maintained technical competencies, professional skills, and professional values, ethics and attitudes.

10.1.5. Do not extend a requirement:

Be careful not to extend a requirement to imply an obligation.

For example, if a requirement says: "The practitioner shall (do something)", and the application material says: "(Doing something) includes doing X, Y and Z," this is extending the requirement. If it is important to the clarity of the requirement, then include it as part of the requirement. If it is strictly application guidance, then use appropriate qualifiers (e.g., (Doing something) may include consideration of such matters as, for example ...")

10.1.6. Implied obligations:

Application and other explanatory material cannot impose a requirement. As such, it is important that application and other explanatory material does not appear to create implied obligations, as may occur

if, for example, when the present tense is used in application and other explanatory material for matters that go beyond the words used in the requirements.

Do not use phrases such as "the auditor does (something)", "the auditor would do (something)" or "the auditor needs to..." in the application and other explanatory material. Such wording format implies that the procedure or action taken by the auditor would be done in all circumstances. If this is the case, it is a requirement and not application material.

Appendix 3 provides examples of how application and other explanatory material drafted in the present tense could be amended.



The IAASB *Framework for Activities* outlines activities to support implementation of IAASB International Standards, which are non-authoritative in nature. These include First time implementation support activities and Non-authoritative support materials:

- ▶ First time implementation support activities assist with the effective implementation of new and revised standards in the initial period after a final standard is published and include Basis for Conclusion Documents and a General Fact Sheet. In addition, they may include as needed one or more of the following outputs: First-time implementation guides, other Fact Sheets, Staff Publications, such as Questions and Answers (or FAQs), flow charts, examples or illustrations, diagrams, presentations (including multimedia presentations), webinars, videos, etc.
- ▶ Non-authoritative support materials address a specific or targeted issue (including, as applicable, related to a specific industry or other particular context) to contribute to the proper and consistent implementation and application of the IAASB's International Standards. These include International Practice Notes (including International Auditing Practice Notes (IAPNs), Non-Authoritative Guidance Documents, Staff Practice Alerts, Other Staff Publications aimed at providing practical assistance to auditors and to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements.

10.1.7. Wording to use:

Examples of wording to use in application and other explanatory material includes:

- "The auditor may consider the following (list of items)" rather than "the auditor considers the following (list of items) ..."
- "The auditor may do (something)," but caution is needed so as it does not nullify another requirement (i.e., when the 'something' is a requirement of the same or another ISA).
- "Examples of procedures the auditor may perform include ..."
- "The following factors may be relevant in [performing requirement]:"
- Use wording that states "ISA [Number] establishes requirements and provides guidance..." instead of "ISA [Number] provides standards and guidance..."

- When referring to a requirement from elsewhere in the application and other explanatory material, use the phrase, for example "In accordance with ISA [Number and full name in footnote when used for the first time], the auditor is required to..."



Example: Negative worded clarifications

ISA 230, paragraph A4

The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

10.1.8. Negatively worded clarifications

The application and other explanatory material of certain ISAs includes negatively worded clarifications which explain what the auditor needs not to do. These clarifications are usually expressed through use of the following phrases: '...the auditor is not...' and '...the auditor need not...'. Note that these use the present tense.

10.1.9. Appendices:

Appendices form part of the application and other explanatory material. An appendix may:

- Provide a more detailed example that would not be appropriate in the body of the standard.
- Include illustrative practitioners' reports, illustrative engagement letters, and illustrative representation letters. These may contain suggestions where the report or letter may be customized. Such material is typically identified through the use of italics and square brackets. Staff may consider whether to include a footnote to explain when or how the material may be customized.
- Contain flowcharts that depict a decision tree or process followed by the practitioner, lists of standards that contain requirements of a certain nature and detailed examples.

Titles of appendices are stated in the Table of Contents, but are not repeated within the ISA. When referring to an appendix in the body of the standard, it can be referred to as "the Appendix" (if there is only one appendix) or "Appendix [Number]" (if there are multiple appendices).

10.1.10. When drafting application and other explanatory material consider the following:

- Avoid language that repeats the requirement without adding something new.
- To the extent possible, try to avoid using qualifiers in the application and other explanatory material relating to the activities of the practitioner, such as "ordinarily", "normally" and "usually". Such terms create ambiguity as to whether they form part of the requirements. If needed, the term "ordinarily" is preferred for circumstances when the application material needs to send a strong message.



Example: Use of term 'ordinarily' in application and other explanatory material

ISA 230, paragraph A21

[...] An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

- Whether any long sentences or paragraphs could be further simplified and streamlined (e.g., bullet points) to improve readability.

- Avoid phrases such as “it is important that the auditor [do something]” in the application and other explanatory material, unless made in reference to an action specified in the requirements of the ISA or another ISA.

11. Scalability Related to Smaller Entities/LCEs and Considerations Specific to Public Sector Entities

Scalability considerations specific to audits of smaller entities/less complex entities (LCEs) and considerations specific to public sector entities are included in the application and other explanatory material of an ISA when appropriate. These considerations do not limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs. These considerations aim to assist in the application of the requirements in the audit of such entities.

Drafting Principle(s)

- 11.1.1. The application and other explanatory material of an ISA can include scalability considerations specific to audits of less complex entities (LCEs) and considerations specific to public sector entities.
- 11.1.2. The considerations are highlighted through the use of specific sub-headings within the application and other explanatory material of an ISA.



Drafting Guideline

11.1.3. Scalability considerations and examples:

In drafting application and other explanatory material, consider whether there is anything more of a specific nature that can be said that would contribute to a better understanding of how a requirement might be applied to a less complex entity (in particular, on documentation).

Some ISAs (e.g., ISA 315 (Revised 2019)) include examples in the application and other explanatory material under the heading

“Scalability” to illustrate the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. These examples of less complex situations are contrasted with consideration for audits of more complex entities to help illustrate the scalability of the standard to entities with different complexities.



Some ISAs place the guidance on ‘Scalability’ at the start of the relevant application and other explanatory material sections, so that auditors of such entities would be able to more appropriately consider the material that followed in context (e.g., ISA 315 (Revised 2019)). In other ISAs, the guidance on scalability considerations related to smaller entities is placed following the application and other explanatory material related to the requirement.

11.1.4. Considerations specific to public sector entities:

In drafting application and other explanatory material, consider whether there is anything more of a specific nature that can be said, or if there is an unique issue to the public sector that would contribute to a better understanding of how a requirement might be applied in the public sector.

The public sector auditor's responsibilities may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements. These additional responsibilities are not dealt with in the ISAs.



Some individual ISAs include other types of specific considerations. These are used to further clarify or explain how to apply the requirements in a specific context or circumstance. For example:

- ▶ Considerations specific to group audits in ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.
- ▶ Considerations specific to automated tools and techniques included in ISA 315 (Revised 2019).

12. Addressing Specific Requirements in Individual Standards Other than ISA 260 (Revised) and ISA 580

ISA 260 (Revised) is an overarching standard that provides the framework for communications with those charged with governance. Certain other ISAs contain specific communication requirements with those charged with governance which are intended to clarify the application of ISA 260 (Revised) in the particular circumstances of those ISAs. The scope of ISA 260 (Revised)¹⁶ explicitly recognizes that specific communication requirements of other ISAs complement and do not limit the application of this overarching standard.

ISA 580¹⁷ deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance. Other ISAs contain subject-matter specific requirements for written representations and the scope of ISA 580 recognizes that these specific requirements do not limit the application of ISA 580.

Drafting Principle(s)

12.1.1. The requirements of individual ISAs use consistent wording and reference back to the overarching standard. This avoids any doubt about the relationship between the subject-matter requirements and the overarching standard.



Drafting Guideline

12.1.2. Format of communication and written representation requirements in individual ISAs:

The following wording is used with respect to the communication requirements in individual ISAs:

¹⁶ ISA 260, paragraph 3

¹⁷ ISA 580, *Written Representations*

‘...unless all of those charged with governance are involved in managing the entity,¹⁸ the auditor shall communicate with those charged with governance ...’ (including the footnote).

The following wording is used with respect to the written representation requirements in individual ISAs:

‘...the auditor shall request written representations from management and, where appropriate, those charged with governance ...’

Such wording assists in avoiding doubt about the relationship between the requirements of the overarching standard and the other ISAs.

12.1.3. Presentation of communication and written representation requirements:

Communication requirements with those charged with governance in individual ISAs are presented toward the end of the requirements section under the heading “Communication with Those Charged with Governance” (after any requirements on written representation and before the documentation requirements).

Written representation requirements in individual ISAs are presented toward the end of the requirements section under the heading “Written Representations” (before any communication requirements).



ISA 260 and ISA 580 include an Appendix with a listing of all paragraphs in other ISAs that require communication of specific matters with those charged with governance and subject-matter specific written representations.

13. Addressing Specific Documentation Requirements in Individual Standards Other than ISA 230

The documentation paragraphs form part of the requirements section of the ISA and set out the documentation requirements of the ISA.

Drafting Principle(s)

13.1.1. ISA 230 is the overarching documentation standard and is relied upon for most of the documentation required in an audit file. Individual ISAs do not necessarily require additional documentation requirements unless:

- The intention is to clarify how the ISA 230 documentation requirements apply in the circumstances of those individual ISAs.
- There are concerns that ISA 230 may not be consistently applied in practice.

13.1.2. The “experienced auditor” test in ISA 230, paragraph 8 is to be applied in determining the extent of documentation requirements.

13.1.3. It is unnecessary to require documentation where compliance with a requirement(s) is demonstrated by documents already required to be included in the audit file, such as the planning documents.



¹⁸ ISA 260, paragraph 13

Drafting Guideline

13.1.4. Factors to consider when deciding whether a documentation requirement is necessary:

A documentation requirement in an individual ISA enables the audit to demonstrate that the related requirement(s) in that individual ISA has been complied with.

In determining whether a documentation requirement in an individual ISA is necessary, consideration is given to the following:

- Is the documentation requirement addressed by ISA 230? If not, a documentation requirement may be necessary in an individual ISA in specific circumstances.
- Does the documentation requirement:
 - Clarify how ISA 230 applies?
 - Drive more consistent application in practice?If yes, a documentation requirement may be necessary.
- Is compliance with a requirement(s) demonstrated by documents already required to be included in the audit file? If yes, a documentation requirement may not be necessary.



Examples of when documentation requirements may be needed:

Clarity:

- ▶ The subject matter represents an audit area that is inherently risky. Examples may include fraud or accounting estimates, which may require specific documentation requirements even though the documentation is covered by ISA 230.

Consistency:

- ▶ Responses to comment letters from audit regulators (from inspection findings) may indicate that documentation requirements are not consistently applied; or
- ▶ Documentation related to certain subject matters should not be left to the professional judgment of the auditor.

Compliance:

- ▶ The requirement implies that a document must be prepared, such as a documented audit plan.

13.1.5. The 'experienced auditor' test:

Documentation requirements are drafted to enable the auditor to prepare documentation so that an 'experienced auditor' is able to understand:

- The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
- The results of the audit procedures performed, and the audit evidence obtained; and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.



ISA 230, paragraph 6(c)

Definition of an Experienced Auditor:

An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- (i) Audit processes;
- (ii) ISAs and applicable legal and regulatory requirements;
- (iii) The business environment in which the entity operates; and
- (iv) Auditing and financial reporting issues relevant to the entity's industry.

Note that "experienced auditor" is a defined term. This means that certain assumptions may be made about what documentation needs to be prepared and the detail needed. However, it is important that the experienced auditor test not be seen as reducing the need for documentation, rather it affects what needs to be documented.

13.1.6. Contents of documentation requirements:

The documentation requirements establish "what" the auditor is required to document. Documentation requirements do not explain "why" the documentation is needed or "how" to apply the documentation requirement (this may, however, be explained in the application and other explanatory material).



Appendix 1 of ISA 230 identifies paragraphs in other ISAs that contain specific documentation requirements.

Certain ISA have no documentation requirements but do require compliance demonstrated by documents included within the audit file (e.g., engagement letter (ISA 210), written representation (ISA 580), and the auditor's report (ISA 700 (Revised))).

13.1.7. Format of documentation requirements in individual ISAs:

Documentation requirement lead-in paragraphs in the individual ISAs follow a consistent format. For example:

"In applying ISA 230, the auditor shall include in the audit documentation: ..."

Documentation requirements should set clear and understandable expectations for the auditor and be stated as simply and concisely as is practical.

13.1.8. Presentation of individual documentation requirements:

Documentation requirements in individual ISAs are presented at the end of the requirements section under the heading "Documentation" (after any communication requirements with Those Charged with Governance).

14. Conforming and Consequential Amendments to ISAs

For adoption of an ISA, the IAASB develops conforming and consequential amendments to other ISAs which are exposed for public comment in accordance with its due process. In certain instances, limited conforming amendments to the ISAs are made as a result of changes to other international standards (e.g., ISQM or the IESBA Code) to ensure the ISAs can continue to be applied effectively together with these international standards without any conflicts.

Drafting Principle(s)

14.1.1. Conforming and consequential amendments to ISAs are made to the minimal extent necessary to:

- Resolve actual or perceived inconsistencies; and
- Maintain the coherence with the overall body of standards so as these can be applied together without conflict.



Drafting Guideline

14.1.2. Identifying conforming and consequential amendments:

In order to identify possible conforming and consequential amendments, staff should search the IAASB Handbook for:

- References to the existing standard number and title;
- References to the subject matter;
- Any existing concepts or words that are replaced with new concepts or words.

Staff will need to review each “hit” from the above search to determine the extent of revision necessary.

14.1.3. Conforming versus consequential amendments:

Both conforming and consequential amendments can extend to amendments in the scope, requirements, application material or elsewhere in the ISAs.

Conforming amendments are minor, simple, obvious, straightforward and editorial in nature. For example, they consist of replacing a superseded number, title and reference to a revised ISA. They also may include amendments which generally involve little or no judgment in preparing them as there are no, or very limited, options for amending the wording. Conforming amendments do not involve re-consideration of the scope, objectives, requirements and application material of an ISA.

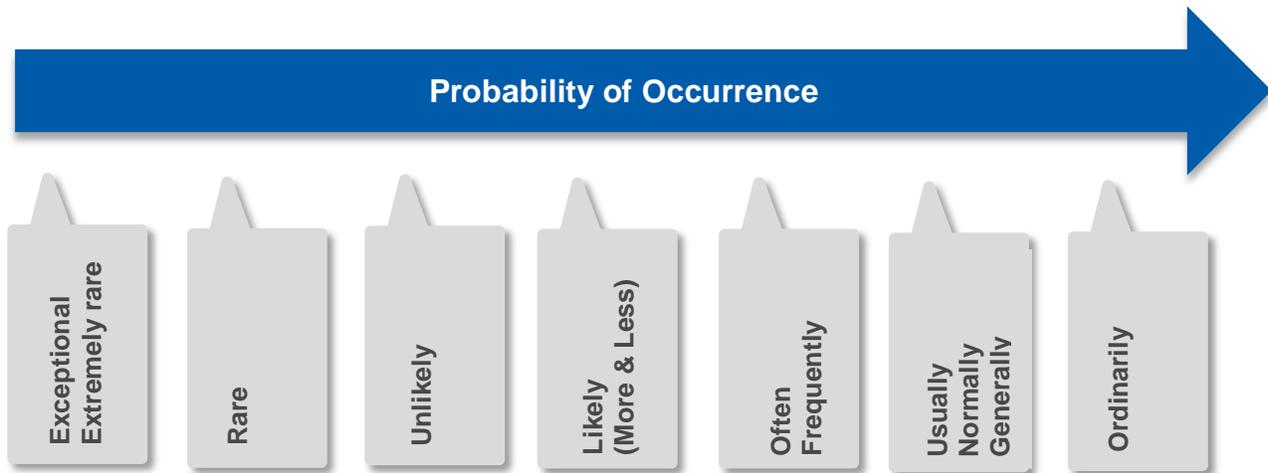
Consequential amendments are of a more significant nature. They require further analysis to determine the extent of the necessary change required to resolve the inconsistency so as to maintain the coherence of the ISAs and enable these to be applied together without conflict. Such analysis requires application of judgement, keeping in mind that the proposed changes should be as minimal as possible.

All conforming and consequential amendments must be exposed for public comment as part of IAASB's due process.

Appendix 1

Terms to Describe Likelihoods of Occurrence in ISAs

The chart below provides a continuum with key terms in ISA that convey the probability of an event occurring, ranking these terms from least to highest probability of occurrence.



Examples of Use: Terms that Convey Probability of an Event Occurring

Term	Requirements	Application Material	Definitions
Exceptional	<ul style="list-style-type: none"> ▶ Consistently used in the context of “exceptional circumstances.” ▶ Referred to as a condition, i.e., by use of the construct: “if” followed by “exceptional circumstances,” except for in ISA 200, when the following construct is used: “In” followed by “exceptional circumstances.” 	<ul style="list-style-type: none"> ▶ In some cases the application and other explanatory material provide examples or refer to other ISAs for examples of the “exceptional circumstances.” 	<ul style="list-style-type: none"> ▶ n/a
Extremely Rare	<ul style="list-style-type: none"> ▶ Consistently used in the context of “extremely rare circumstances.” ▶ Frequently stated as a condition. 	<ul style="list-style-type: none"> ▶ Used as “extremely rare”, “extremely rare cases” and “extremely rare circumstances.” 	<ul style="list-style-type: none"> ▶ Applicable financial reporting framework definition to describe departures from

Term	Requirements	Application Material	Definitions
	<ul style="list-style-type: none"> ▶ Used most frequently in the 700-series. 		<p>a requirement of a fair presentation framework, i.e., <i>‘expected to be necessary only in extremely rare circumstances.’</i></p>
Rare	<ul style="list-style-type: none"> ▶ Used only in ISA 700 (Revised) and consistently referred to as “rare circumstances.” 	<ul style="list-style-type: none"> ▶ Used as “rare”, “rare cases”, “rare circumstance(s)”, “rarely” 	<ul style="list-style-type: none"> ▶ n/a
Unlikely	<ul style="list-style-type: none"> ▶ Used only in the context of fraud (e.g., <i>‘...fraud is unlikely to be an isolated occurrence...’</i>) 	<ul style="list-style-type: none"> ▶ In the context of fraud (<i>‘...inquiries are unlikely to provide useful information...’</i> <i>‘...an instance of fraud is unlikely to be an isolated occurrence...’</i>) ▶ Evaluating the effect of uncorrected misstatements (<i>‘...it is unlikely that it can be offset by other misstatements...’</i>) ▶ Selecting Items for testing to obtain audit evidence (<i>‘...100% examination is unlikely in the case of tests of controls...’</i>) 	<ul style="list-style-type: none"> ▶ n/a
Likely (including More & Less Likely)	<ul style="list-style-type: none"> ▶ Examples of use: ‘likely to exist’ (in the context of risk of fraud), ‘likely to have’ (in the context to evaluate whether non-compliance has occurred), ‘likely to result’ (in the context of the need to express a qualified opinion or to disclaim an opinion). 	<ul style="list-style-type: none"> ▶ Often used in the scalability and specific considerations of ISAs (e.g., <i>‘...smaller entities are likely...’</i> <i>‘...likely to be the case in a smaller entity...’</i>). ▶ In addition to likely, referred also in cases as 	<ul style="list-style-type: none"> ▶ Significant component (referred to as ‘likely’). ▶ Sampling risk (referred to as ‘more likely’).

Term	Requirements	Application Material	Definitions
		<ul style="list-style-type: none"> ‘more likely,’ ‘most likely,’ and ‘less likely.’ 	
Often	<ul style="list-style-type: none"> Essential material in requirements of ISA 240: <i>‘While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.’</i> 	<ul style="list-style-type: none"> Used in smaller entity and public sector considerations (<i>‘...often a single individual...’</i> <i>‘often have fewer employees’</i>) Misappropriation of Assets (<i>‘...is often perpetrated by employees in relatively small and immaterial amounts.’</i>) Fraudulent financial reporting (<i>‘often involves management override of controls that otherwise may appear to be operating effectively.’</i>) Applicable financial reporting framework (<i>‘...often encompasses financial reporting standards established by ...’</i>) 	<ul style="list-style-type: none"> Stratification (<i>‘...often monetary value’</i>)
Frequently	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Used across several ISAs in the context of external conformation procedures (i.e. in ISA 330, ISA 500 and ISA 505): <i>‘External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items’</i> 	<ul style="list-style-type: none"> n/a
Usually	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> <i>‘The fact that fraud is usually concealed can make it difficult to detect’</i> 	<ul style="list-style-type: none"> Annual report Auditor

Term	Requirements	Application Material	Definitions
		<p><i>‘The description of key audit matter is not usually of itself original information...’</i></p>	<ul style="list-style-type: none"> ▶ Misappropriation of assets ▶ Sampling Risk
Normally	<ul style="list-style-type: none"> ▶ n/a 	<ul style="list-style-type: none"> ▶ <i>‘The auditor’s report is normally addressed to those for whom the report is prepared...’ ‘...such information is normally presented...’</i> 	<ul style="list-style-type: none"> ▶ Supplementary information
Generally	<ul style="list-style-type: none"> ▶ In ISA 250 (Revised) <i>‘The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.’</i> 	<ul style="list-style-type: none"> ▶ Used in smaller entity and public sector considerations (<i>‘...public sector audits generally mandate the appointment...’ ‘...documentation for the audit of a smaller entity is generally less extensive...’</i>) ▶ <i>‘Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time’</i> ▶ <i>‘... in accordance with accounting principles generally accepted in Jurisdiction X ...’</i> 	<ul style="list-style-type: none"> ▶ n/a
Ordinarily	<ul style="list-style-type: none"> ▶ n/a 	<ul style="list-style-type: none"> ▶ The term “ordinarily” is preferred for circumstances when the application material needs to send a strong message. For example, <i>‘The retention period for audit engagements ordinarily is no shorter than five years...’</i> 	<ul style="list-style-type: none"> ▶ Relevant Ethical Requirements ▶ Financial Statements

Examples of Use: Terms Associated with 'Risk'

Risk	Glossary of Terms and Instances of Use in ISAs
Engagement Risk	<ul style="list-style-type: none"> ▶ <i>'Reasonable Assurance Engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion.'</i> <p><i>Glossary of Terms</i></p>
Detection Risk	<ul style="list-style-type: none"> ▶ <i>'Detection Risk—The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.'</i> <p><i>Glossary of Terms, ISA 200, paragraph 13(e)</i></p>
Audit Risk	<ul style="list-style-type: none"> ▶ <i>'To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion'</i> <p><i>ISA 200, paragraph 17</i></p> <ul style="list-style-type: none"> ▶ <i>'Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment...'</i> <p><i>ISA 200, paragraph A33</i></p>
Sampling Risk	<ul style="list-style-type: none"> ▶ <i>'The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.'</i> <p><i>ISA 530, paragraph 7</i></p>
Risk(s) of Material Misstatement	<ul style="list-style-type: none"> ▶ <i>Risk of material misstatement exists when there is a reasonable possibility of (a) a misstatement occurring (likelihood) and (b) being material if it would occur (magnitude))'</i> <p><i>ISA 200, paragraph A15a*</i></p> <ul style="list-style-type: none"> ▶ <i>Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.</i> <p><i>ISA 200, paragraph A38</i></p> <ul style="list-style-type: none"> ▶ <i>The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level.</i> <p><i>ISA 330, paragraph A4*</i></p>
Significant Risk	<ul style="list-style-type: none"> ▶ <i>'An identified risk of material misstatement: (i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which</i>

Risk	Glossary of Terms and Instances of Use in ISAs
	<p><i>inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur. [...]</i></p> <p>ISA 315 (Revised 2019), paragraph 12(l)</p> <ul style="list-style-type: none"> ▶ <i>'The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including...'</i> <p>ISA 315 (Revised 2019), paragraph A218</p> <ul style="list-style-type: none"> ▶ <i>'The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA...'</i> <p>ISA 315 (Revised 2019), paragraph A220</p>
Inherent Risk	<ul style="list-style-type: none"> ▶ <i>'The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk close to the lower end of the spectrum of inherent risk.'</i> <p>ISA 540 (Revised), paragraph A68*</p> <ul style="list-style-type: none"> ▶ <i>'Conversely, the inherent risk factors may, either individually or in combination, affect complex accounting estimates to a greater degree, and may lead the auditor to assess inherent risk at the higher end of the spectrum of inherent risk.'</i> <p>ISA 540 (Revised), paragraph A69</p> <ul style="list-style-type: none"> ▶ <i>'Testing the operating effectiveness of controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks.'</i> <p>ISA 540 (Revised), paragraph A85*</p>

* Conforming and consequential amendments to other standards as a result of ISA 315 (Revised 2019)

Examples of Use: Other Terms Associated with Likelihood

Term	Glossary of Terms and Instances of Use in ISAs
Significance	<ul style="list-style-type: none"> ▶ Significance <p><i>'Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the</i></p>

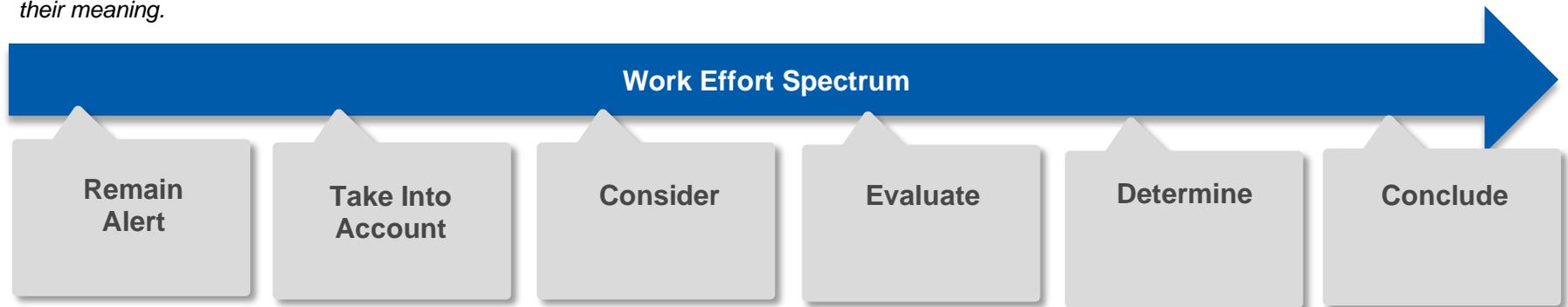
Term	Glossary of Terms and Instances of Use in ISAs
	<p><i>context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.'</i></p> <p><i>Glossary of Terms</i></p>
<p>Uncertainty</p>	<p>▶ Uncertainty</p> <p><i>'Uncertainty—A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.'</i></p> <p><i>Glossary of Terms</i></p>
<p>Appropriately Low Level</p>	<p>▶ Performance Materiality</p> <p><i>'The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. [...]</i></p> <p><i>ISA 320, paragraph 9</i></p> <p>▶ Component Materiality</p> <p><i>'To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole.'</i></p> <p><i>ISA 600, paragraph 21(c)</i></p>

Appendix 2

Work Effort Verbs

This Appendix describes some of the work effort verbs in common use in the ISAs. There are other verbs used in the ISAs.

This Appendix describes the spectrum of work effort implied by commonly used verbs. It also includes possible documentation implications for the work effort described. In places, common dictionary definitions of terms are included when the terms are not defined in the IAASB Glossary. The Appendix also includes possible work effort and documentation implications. This is not meant to be definitive or definitional but rather suggests a spectrum that may be useful in distinguishing work effort and considering what may be necessary to demonstrate, through documentation, the work that was performed. Verbs also are used throughout the ISAs within a particular context linked to different stages of the audit process, which also is relevant in understanding their meaning.



Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
Remain Alert	▶ n/a	▶ Be aware of, or vigilant for.	▶ Not actively generating audit evidence but responding only if obvious information comes to the auditor's attention in performing procedures that may impact or be contradictory to other auditor knowledge about	▶ Document if a matter comes to the attention of the auditor that requires auditor action.

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
			the audit. Also known as “trip over”	
Take Into Account	▶ n/a	▶ To think about something when judging a situation.	▶ In performing procedures, actively thinking about or being influenced by relevant matters but only taking action when the matter is applicable.	▶ Document if a matter that has been ‘taken into account’ has resulted in an auditor action.
Consider	▶ n/a	▶ Think carefully about (something), typically before making a decision.	▶ A more active reflection by the auditor about a specific matter or relevant matters in the circumstances. Also known as “reflect upon”	▶ If the auditor’s consideration is significant in the context of a particular engagement, documentation may include the auditor’s rationale for the decision made (which may be a specific decision or a decision as reflected in the auditor’s subsequent action), or the conclusion reached. ¹⁹
Evaluate	▶ Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is	▶ [Addressed in the Glossary]	▶ If the preparation of the relevant subject matter or analysis (i.e., the source) is the responsibility of management or those charged with governance, the ISAs generally describe the work effort as “shall evaluate.” Elsewhere, the auditor “shall evaluate” whether or how	▶ The underlying requirement(s) may identify or specify certain minimum actions to be performed or criteria to be used in performing the evaluation; or the application material may explain how the evaluation may be performed - the auditor uses

¹⁹ ISA 230, paragraph A10

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
	used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk.		matters affect the auditor's actions or the implications of a matter(s) for the auditor's purposes. The auditor is required to identify and analyze the relevant issues or matters, to come to a specific conclusion. The key difference with earlier verbs is the need to come to a conclusion	professional judgment in applying paragraph 8 of ISA 230. ▶ Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor's conclusion.
Determine	▶ n/a	▶ To conclude or ascertain, as after reasoning, observation, etc.	▶ Similar to "evaluate" above, but if the preparation of the relevant information or analysis is the responsibility of the auditor, the ISAs generally describe the work effort as "shall determine." The construct is often that in undertaking a certain action or having undertaken an action(s), the auditor "shall determine". ▶ The auditor is required to identify and analyze the relevant issues or matters, to come to a specific conclusion.	▶ The underlying requirement(s) may identify or specify certain minimum actions to be performed or criteria to be used in making the determination; or the application material may explain how the determination may be performed - the auditor uses professional judgment in applying paragraph 8 of ISA 230. ▶ Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor's conclusion.
Conclude	▶ n/a	▶ Arrive at a view or judgment by reasoning.	▶ The relevant standard ordinarily sets out those matters to be	▶ Where the auditor is required to conclude on a matter, document

Verb	Glossary Description	Dictionary Definition / Description of Action	Possible Work Effort Implications	Possible Documentation Implications
			<p>determined or evaluated for the auditor to be able to conclude, or the matters that may influence the auditor's judgment.</p>	<p>the conclusion reached and the basis for the auditor's conclusion. For example, the basis for the auditor's conclusion on the reasonableness of areas of subjective judgments should be documented.²⁰</p>

²⁰ ISA 230, paragraph A10

Appendix 3

Present Tense Redrafting Examples

A common present tense is ‘The auditor considers the standards and guidance in ISA XYZ when...’ This is usually for purposes of cross-referencing rather than to establish a requirement (such a requirement exist by virtue of the need for the auditor to comply with relevant requirements). This can often be redrafted by stating “ISA XYZ establishes requirements and provides guidance relating to/dealing with...”

In redrafting sentences in the present tense that are judged not to represent requirements, consider the following:

- Is it needed at all, or can a cross reference suffice, if it simply paraphrases a new or existing requirement in the ISA or another ISA?
- Can the action words simply be deleted (that is, has action been reflected because of the style of drafting, where the real purpose of the sentence is to provide further explanation of why something is important)? (for example, “the auditor considers the entity’s...” may be changed to “the auditor may consider the entity’s...” or “relevant considerations may include the entity’s...”).
- Can ‘may’ or ‘for example’ be inserted to highlight the action as a suggested or possible procedure? (for example “Given the exceptional nature of the circumstances, the auditor may consider it appropriate to t...” or “Examples of matters that the auditor may consider include”
- As a last resort, consider using the passive voice. (e.g. “relevant considerations may include the entity’s...”

Below are further examples where the application material has been drafted in present tense, and shows how this could be amended.

Example 1: Corrected by Using Softening and Using Passive Voice	
Original	Revised
...In evaluating whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity’s financial position, financial performance and cash flows, <u>the auditor considers</u> the extent to which the information in the financial statements is useful and specific to the circumstances of the entity. In evaluating whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity’s financial position, financial performance and cash flows, <u>it may be useful to consider</u> the extent to which the information in the financial statements is useful and specific to the circumstances of the entity...

Example 2: Corrected by Flipping the Sentence

Original

The relevance of the accounting policies to the entity, and the clarity with which they have been presented, are important in the auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies applied

Revised

The auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies applied may include consideration of matters such as the relevance of the accounting policies to the entity, and the clarity with which they have been presented

Example 3: Corrected by Using Examples

Original

Matters the auditor considers in evaluating the understandability of the financial statements include whether:

- The financial statements, including disclosures, are appropriately classified...; and
- The disclosures do not undermine

Revised

Evaluating the understandability of the financial statements [may] include, for example, whether:

- The financial statements, including disclosures, are appropriately classified
- The disclosures do not undermine